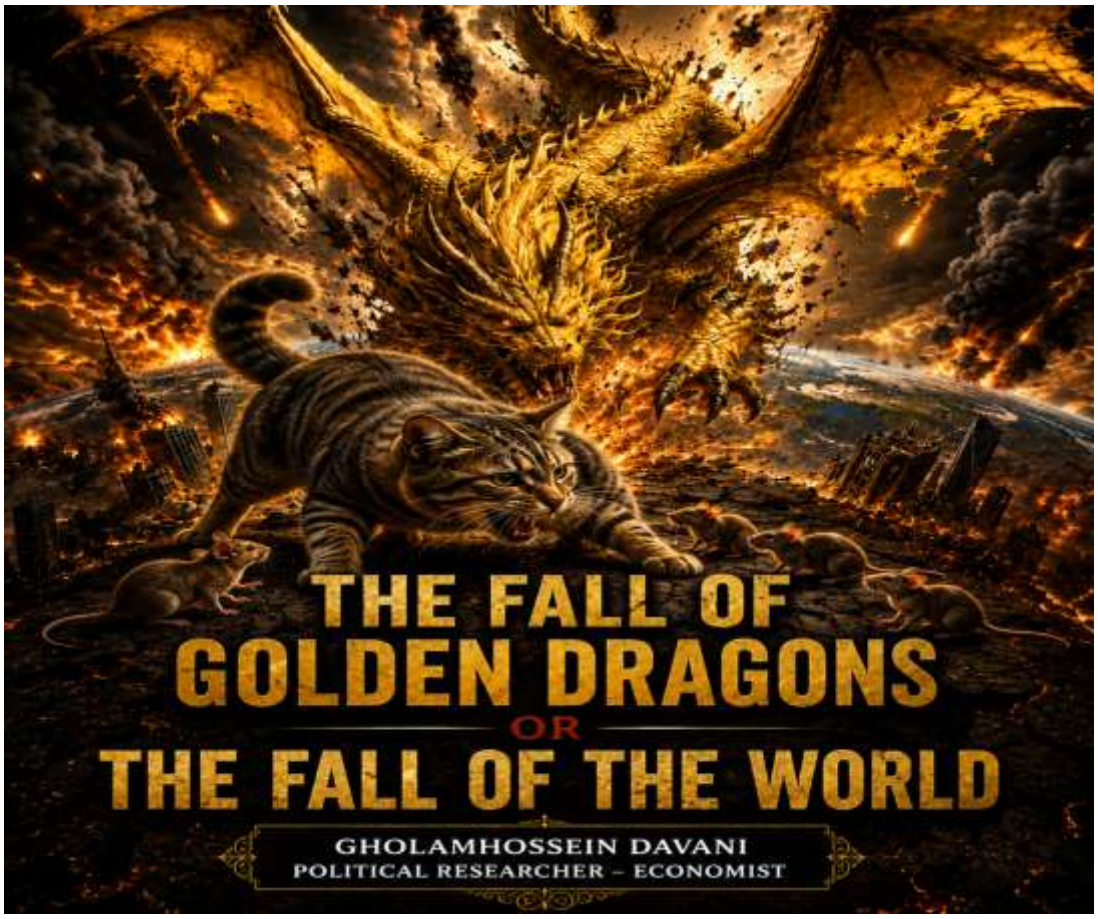

In 2008, China Was a Savior of the Global Economy
If China Falls This Time, Who Will Save China?

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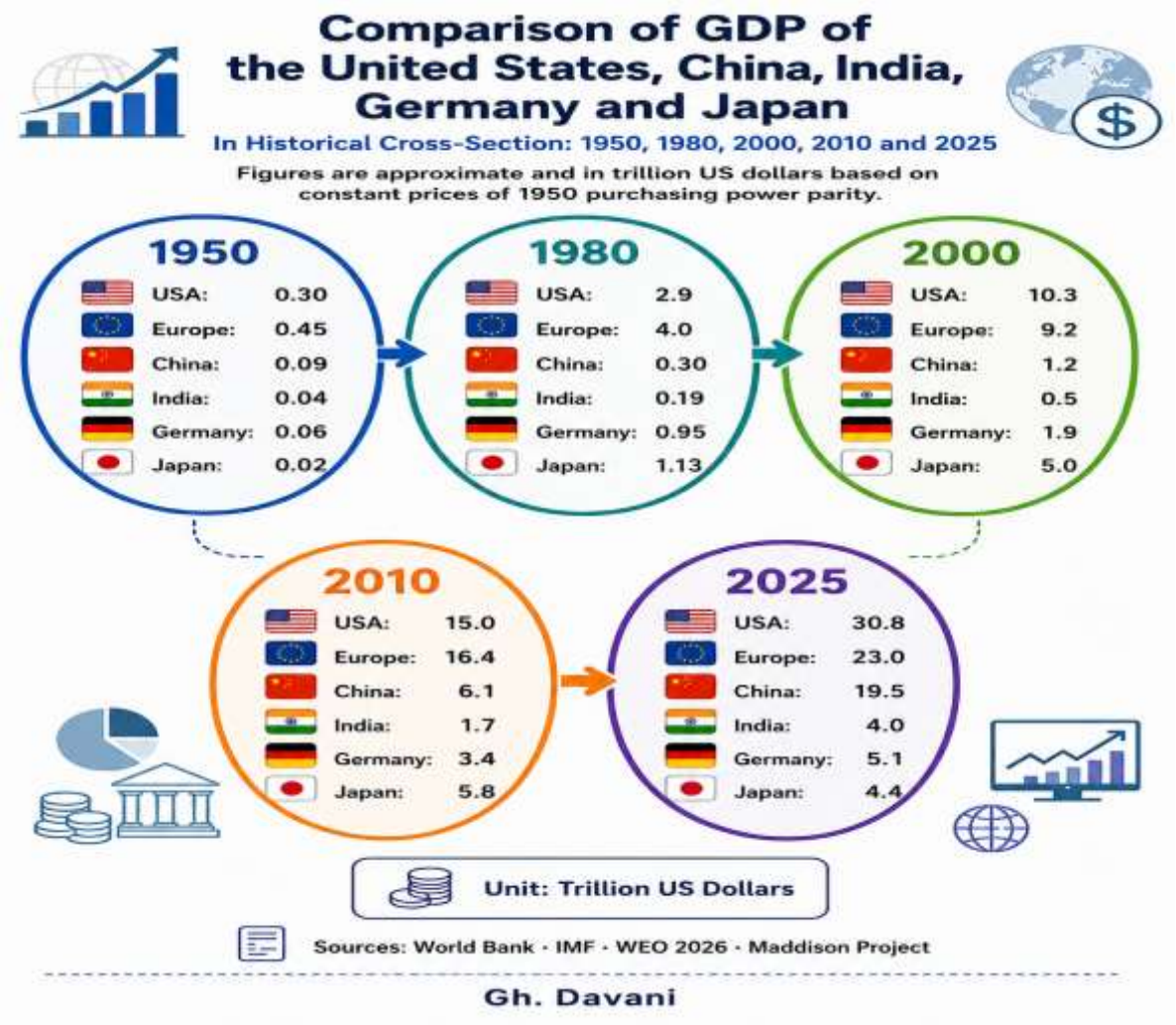
It was once said, quoting Napoleon: “Let China sleep, for when she wakes, she will shake the world.” Later, Deng Xiaoping, the architect of modern China, famously said: “It does not matter whether a cat is black or white; if it catches mice, it is a good cat.” Deng’s point was that what matters is the result and effectiveness of a method, not whether it is ideologically labeled “socialist” or “capitalist.” Eventually the dragon awoke. Between 2000 and 2025, China’s economy expanded at an extraordinary pace; the Chinese cat swallowed many of capitalism’s mice. China helped contain the global capitalist crisis in 2008, and in the current year its trade surplus has exceeded $1.2 trillion. [1, 2]

The central paradox of China’s economic story is precisely this: during the 2008 crisis the world needed China to help it move through the downturn. But if the next major crisis begins inside China itself, who will have the capacity to rescue China?

In 2008, the financial crisis began at the heart of the U.S. financial system and then spread to Europe and much of the global economy. China was also hit: its exports fell sharply in late 2008, while the global recession and collapse in international trade put pressure on growth. Beijing reacted quickly with a massive RMB 4 trillion stimulus package, roughly $586 billion, directing large-scale investment into infrastructure, housing, and construction projects. The following figure illustrates that while most major economies became only two to three times larger between 2000 and 2025, China's economy expanded roughly sixteen-fold despite the risks and has become extraordinarily difficult to contain. [3, 4]



The importance of this action went beyond saving China's own economy. China became one of the principal engines pulling the world out of recession. Its enormous demand for iron ore, copper, energy, and other raw materials supported commodity-exporting economies and helped stabilize global prices. Economic studies have likewise shown that China's stimulus and rising import demand played an important role in supporting commodity prices and global demand. Put simply, in 2008 the United States was the center of the crisis, while China became one of the largest engines of the recovery. Today, however, the equation is very different. [4]

If we take Michael Froman's warning seriously, the next crisis may begin not on Wall Street but with the accumulation of production capacity, debt, weak domestic consumption, and excess supply inside China. Froman warns that China has reached a point at which production capacity may exceed what

domestic and foreign markets can absorb. If this imbalance is not corrected, its consequences will extend far beyond China's borders. This raises the large—and potentially troubling—question: [5]

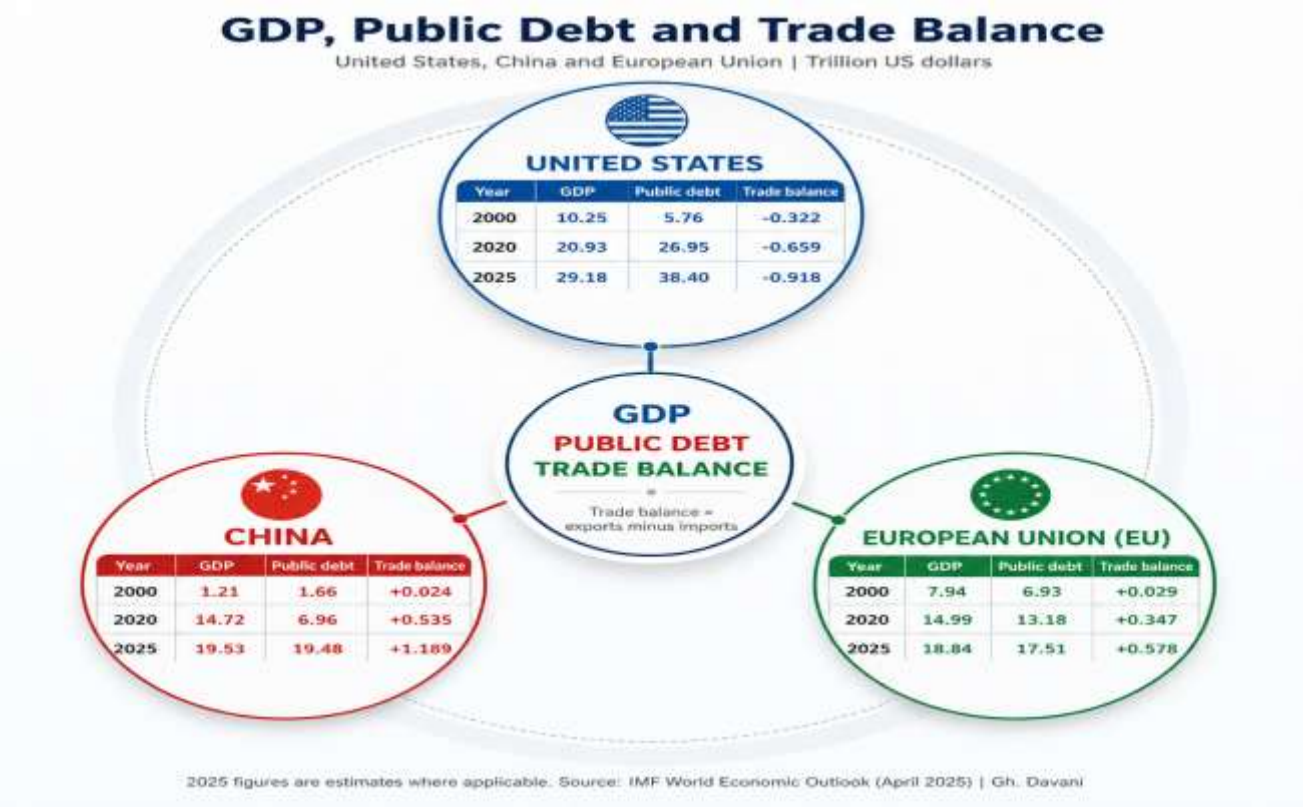
If China in 2008 was able to use its economic power to pull part of the world out of crisis, which country would be able to rescue a crisis-stricken China in the future?

This question matters because China today is fundamentally different from China in 2008. At that time, the economy was still in a phase of rapid expansion, urbanization was advancing quickly, domestic demand had enormous room to grow, and Beijing could create employment and demand by building highways, railways, airports, cities, and factories. Much of that capacity has now already been built. China also faces population decline, an aging workforce, a prolonged property crisis, heavy local-government debt, and weak household consumption. Therefore, the formula that worked in 2008 will not necessarily have the same effect in a future crisis. Even if Beijing once again launches a huge stimulus package, the question becomes: where exactly can the money be spent? [5, 6]

If the answer is once again more factories, more infrastructure, and more productive capacity, the cure may become part of the disease. China's problem today is not a shortage of factories; it is insufficient demand for what those factories can produce.

The United States can no longer play the role it played in 2008.

There is an important historical difference in this scenario. In 2008, China could still inject demand into the world economy through higher imports and domestic investment. Today, if the crisis begins in China, the United States and Europe are likely to be confronting serious problems of their own. The United States faces public debt of more than $40 trillion, persistent budget deficits, and deep political divisions. Europe is struggling with weak growth, demographic pressure, and structural industrial problems. Japan faces population aging and heavy debt. Emerging economies may themselves become victims if Chinese demand falls sharply. The strangest feature of a future crisis may therefore be that the world's largest economies stand not among the rescuers, but among the victims. [6, 7]


GDP, Public Debt and Trade Balance
United States, China and European Union | Trillion US dollars
UNITED STATES
Year GDP Public debt Trade balance
2000 10.25 5.76 -0.322
2020 20.93 26.95 -0.659
2025 29.18 38.40 -0.918
GDP
PUBLIC DEBT
TRADE BALANCE
Trade balance = exports minus imports
CHINA
Year GDP Public debt Trade balance
2000 1.21 1.66 +0.024
2020 14.72 6.96 +0.535
2025 19.53 19.48 +1.189
EUROPEAN UNION (EU)
Year GDP Public debt Trade balance
2000 7.94 6.93 +0.029
2020 14.99 13.18 +0.347
2025 18.84 17.51 +0.578
2025 figures are estimates where applicable. Source: IMF World Economic Outlook (April 2025) | Gh. Davani

If China enters a deep recession, raw-material exporters will face weaker demand, European industries will confront stronger competitive and price pressure, emerging markets will suffer from falling exports and foreign-exchange earnings, and the global financial system will face new layers of debt and

imbalance. Under such conditions, even the IMF or the World Bank could not simply perform a role comparable to that of the Chinese government in 2008. These institutions have resources and tools to assist countries, but the size of China's economy and the potential resources required to confront a systemic Chinese crisis would be of an entirely different order. The IMF now has 191 members, but rescuing an economy the size of China is radically different from its usual support programs for smaller economies. Perhaps the answer is that no one can rescue China. [8]

This is where Froman's warning takes on a deeper meaning.

If China reforms its economy before reaching a crisis point, it will not need to be "rescued." But if reforms are delayed and excess capacity, debt, weak consumption, and export dependence reinforce one another, the problem will no longer be the rescue of a few banks or companies. It will be the rebalancing of the world's second-largest economy—something no single country can accomplish.

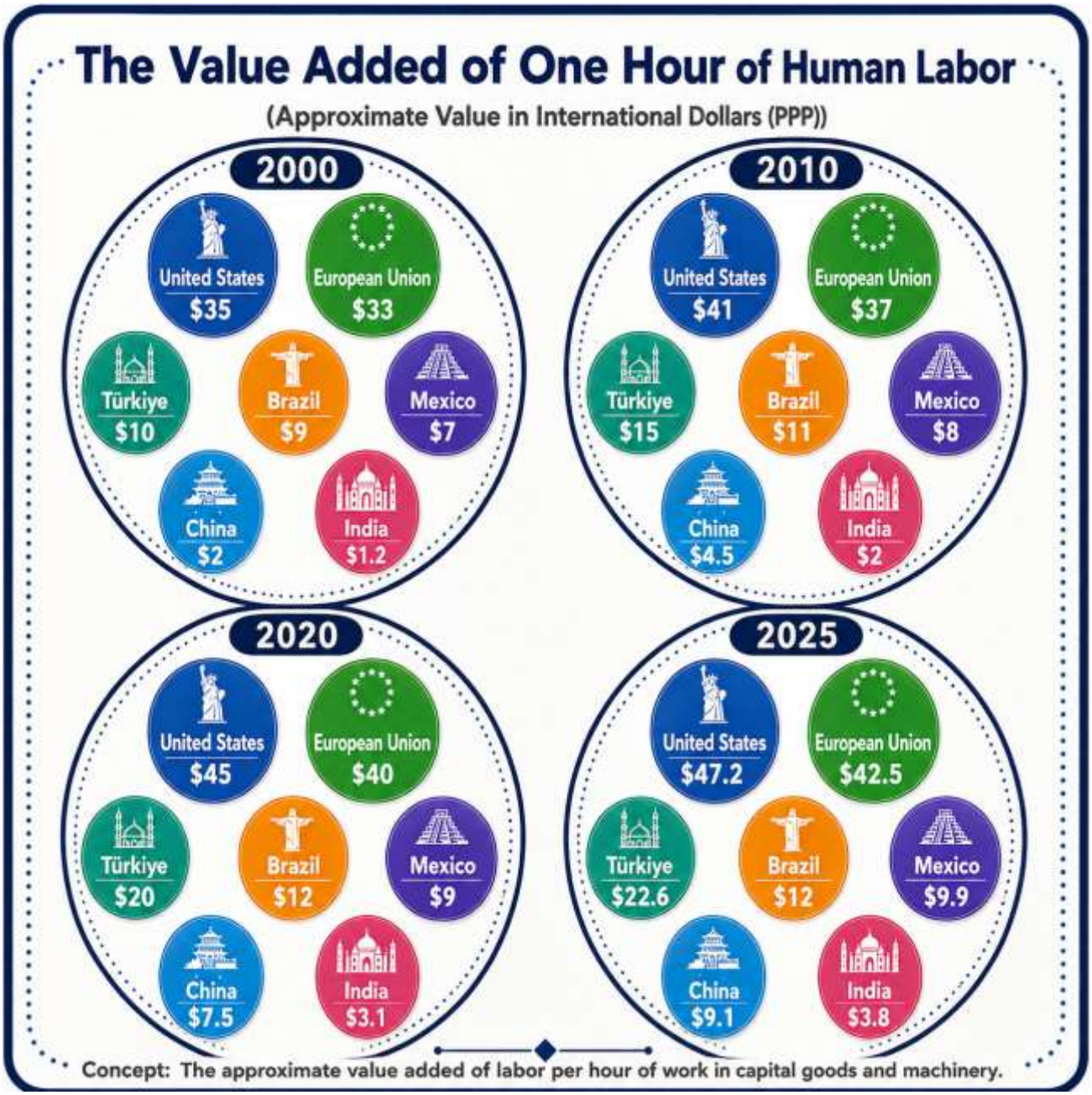
The United States cannot do it alone. Europe cannot do it alone. Japan, India, and the Gulf states cannot do it alone either. Even institutions such as the IMF and World Bank would require unprecedented cooperation and resources from the major powers. The great difference between 2008 and a possible future crisis is therefore that China was part of the solution to the global crisis in 2008, whereas in a future crisis China itself could become the largest part of the problem.

This may be the most important question of all the warnings about China's excess production: China had become large enough to help save the world in 2008, but is the world today large and coordinated enough to save a China in crisis? The answer remains unclear.

When China's Production Engine Becomes a Threat to the Global Economy

China's industrial leap over the past four decades has been one of the most important transformations in the international economy. It lifted hundreds of millions of people out of poverty, reshaped global supply chains, and delivered low-cost goods to consumers around the world. Yet the same model that once powered Chinese growth and helped reduce global inflation now faces a fundamental contradiction: China produces more than its domestic economy—and even the global economy—can absorb. The following figure suggests that China's development has been broad-based: the value added per hour of a Chinese worker rose from about $2 in 2000 to $9.1 in 2025, a 4.55-fold increase, compared with about 1.34-fold for an American worker over the same period. [5, 9]

This rise reflects not only a higher intensity of labor exploitation, but also greater education, productivity, and worker skills.



Michael B. G. Froman, president of the U.S. Council on Foreign Relations and a former U.S. Trade Representative, argues in Foreign Affairs that the issue is no longer merely “China’s industrial overcapacity.” The larger problem is that the global market’s ability to absorb this surplus may be approaching a limit capable of triggering a major economic crisis. In Froman’s formulation, China could once expand by increasing exports far faster than the world economy because China itself was much smaller. Today, however, China is so large that the model eventually encounters a simple constraint: there may not be enough buyers. [5]

From Growth Engine to the Overcapacity Trap

For decades, China’s development model also benefited the world economy. Western countries and other economies received inexpensive goods; multinational companies benefited from low-cost supply chains; and China, in return, gained capital, technology, employment, and export markets. For many years the relationship resembled a win-win game. But China is now so large that continuing the same policy without fundamental reform is no longer feasible. China’s trade surplus reached nearly $1.2 trillion in 2025—the largest in its history and one of the biggest trade imbalances ever recorded. More

importantly, the surplus has grown far faster than global merchandise trade. These figures should not be interpreted simply as an export success. When a trade surplus is combined with weak domestic consumption and expanding productive capacity, it can indicate a structural imbalance: output rises, but domestic demand does not keep pace, forcing firms to depend increasingly on foreign markets to sell what they produce. [1, 5]

China currently accounts for about 30 percent of global manufacturing output, and some estimates place its future share even higher. This industrial concentration, combined with state credit and industrial policy, has allowed China to expand capacity at extraordinary speed in electric vehicles, batteries, solar panels, chemicals, and industrial equipment. The problem begins when productive capacity pulls away from the capacity of demand. [5]

‘Involution’: The Factory That Cannot Hit the Brakes

One root of the problem lies in the structure of China’s economy. Firms continue to invest, expand output, and cut prices in order to preserve market share and avoid failure—even when profit margins become extremely thin or negative. Local governments also have incentives to keep the process going: factories create jobs, pay taxes, and sustain economic activity in cities and provinces. State-owned banks often continue financing companies that, in a fully market-driven economy, might have to shrink or exit. The result is a self-reinforcing cycle: more investment, more capacity, more output, more exports, and prices lower than those of competitors. [5]

Froman emphasizes the same mechanism. Companies invest to produce and export more even at minimal or negative margins, while local governments continue supporting factories and employment. The result is an immense industrial system that cannot easily stop, yet cannot grow forever at the same pace because demand is limited. [5]

Beijing is not unaware of the problem. In 2025 the Chinese government launched a campaign against ‘involution,’ or destructive internal competition, and the Fifteenth Five-Year Plan gave greater attention to domestic consumption. But the core issue remains: real reform requires shifting resources away from production and investment and toward households, services, and consumption—a change that could reduce industrial growth in the short run. [5]

The Problem Is Not China Alone: The Global Market No Longer Has Its Former Absorptive Capacity

This is the sensitive point in Froman’s argument. Even if China can continue increasing exports for a while, the world economy cannot grow at the same pace. The IMF has projected global economic growth of about 3.1 percent in 2026, while China’s trade surplus in the first two months of the year increased by more than 20 percent from the same period a year earlier. If Chinese production grows much faster than global demand, sooner or later the market faces an elementary arithmetic problem: the number of customers in the world is finite. [5, 10]

The imbalance is even clearer in China’s strategic industries. Annual Chinese manufacturing capacity for solar equipment, for example, has been estimated at around 1,200 gigawatts—roughly twice the amount installed worldwide in the previous year. At the same time, exports of Chinese solar cells rose sharply in the first half of 2025 while average prices fell. More production, therefore, does not necessarily mean more profit; it can mean fiercer price competition and greater pressure on producers worldwide. [5, 11]

A similar pattern is visible in electric vehicles. China not only has a huge domestic market but has also built capacity for which export growth is vital. When domestic demand cannot absorb all output, foreign markets become the natural destination for the surplus. [5, 11]

Europe: The First Line of Defense Against China’s Industrial Shock?

This change is especially visible in Europe. European industrial economies that were once among the world’s largest exporters now face increasingly direct competition from China in several sectors. Germany is a striking example. Its auto industry, a pillar of the country’s economy and employment, has become vulnerable to the rapid rise of Chinese EV producers. The European Union, responding to concerns over unequal competition, state subsidies, and industrial dependence, has moved toward protective policies and trade restrictions. [5, 12]

Yet this response creates a paradox. If Europe and the United States impose tariffs to protect their industries, some pressure is lifted from Western manufacturers, but global trade becomes more expensive and supply chains more complex. If markets remain fully open, domestic industries in many countries may be damaged by China’s enormous production capacity. The issue is therefore no longer

simply ‘China versus the United States’; it is a structural conflict among excess production, global demand, and industrial policy.

If Chinese exports stall, the crisis may begin at home. The key contradiction is that a crisis caused by overproduction could first strike China itself. If foreign markets close one after another, firms operating on extremely thin margins may face a wave of bankruptcies. State banks would accumulate non-performing loans, local governments would lose revenue, and unemployment would rise in industrial regions.

China overcame the shock of the 2008 global crisis with a huge stimulus centered on infrastructure and construction. Today’s circumstances are fundamentally different. China’s working-age population peaked in 2015, and the total population has been declining since 2022. Large-scale rural-to-urban migration no longer proceeds at the old pace. The property market, once a major engine of investment, is in a prolonged slump. Under these conditions, repeating the 2008 formula is far more difficult. A shortage of demand cannot be solved indefinitely by building more infrastructure, more factories, and more productive capacity. In other words, China does not suffer from too little capacity; it suffers from too little sustainable demand. [5, 6]

How Does a ‘China Shock’ Spread to the World?

If China enters a serious downturn because export markets are restricted, the effects will not stop at its borders. The first transmission channel is trade. Raw-material exporters to China—from Australia and Brazil to Chile and many developing economies—could face lower demand for oil, iron ore, copper, and other commodities if Chinese investment and production decline sharply.

The second channel is prices. Very low-priced Chinese goods can reduce goods inflation, but they can also put pressure on producers in other countries. That pressure can reduce industrial investment and employment.

The third channel is politics. As more countries conclude that their industries are being harmed by China’s excess capacity, pressure will rise for tariffs, quotas, investment restrictions, and export controls. The world economy could then move away from an era of ‘deep globalization’ toward competing trade and industrial blocs. This is the point at which an economic problem can become a geopolitical one.

Why This Crisis Would Not Necessarily Look Like 2008

Warnings about a ‘China crisis’ should not be confused with a definite prediction of economic collapse. China is a very large and diversified economy with substantial financial and policy capacity. Froman himself stresses that crisis is not inevitable and that Chinese leaders show signs of recognizing the problem. The main danger may be not a sudden collapse but a long period of painful adjustment, resembling Japan’s experience after its asset bubble burst—but on a much larger scale and with greater global consequences. China may buy time with additional subsidies, a weaker yuan, credit support, and new markets. But the longer reform is postponed, the larger the imbalances may become. The way out is to change China’s growth engine. [5]

In Froman’s view, the fundamental solution is to prevent crisis before it occurs: China must gradually shift its growth engine from investment and exports toward household consumption and services. This means strengthening the social safety net, raising households’ share of income, reducing precautionary saving, reforming pensions and health care, cutting inefficient industrial subsidies, and allowing low-productivity firms to leave the market. Such reform would be painful in the short term but could create a more balanced Chinese economy over time. Chinese households must receive a larger share of economic growth, and the economy must be able to generate domestic demand without relying on ever-rising exports. [5, 6]

At the international level, Froman also emphasizes coordination among the major powers. He proposes that China's trade imbalances be addressed more seriously within the G20 and that earlier experiences of economic coordination—including the Plaza Accord—be used to create a new balance. In his view, the G20 meeting in Miami in December 2026 could provide an opportunity to place the issue at the center of global economic discussion. [5]

The Dragon's Achilles Heel

The paradox of China's economy is ultimately simple: its greatest strength may become its greatest weakness. China has built an industrial system unprecedented in the scale, speed, and export power it has achieved. But that success has created a new problem. Once a country's productive capacity exceeds what domestic and foreign markets can absorb, still more production is no longer necessarily a sign of strength; it may signal the accumulation of a dangerous imbalance.

The main risk is not necessarily 'China's collapse.' The deeper danger is the gradual collision among a Chinese economy hungry for markets, a world with limited demand, and governments no longer willing to bear the costs of China's industrial expansion as they once did. If Beijing strengthens domestic consumption, cuts surplus capacity, and shifts resources from low-return industries toward households and services before the process reaches a breaking point, the imbalance can be reduced gradually. But if the answer remains more exports, subsidies, and credit, the problem will only grow. [5]

In that case, what was once called the 'China shock' could enter a new phase. This time the shock would arise not merely from the arrival of cheap Chinese goods, but from the world's inability to absorb the scale of Chinese production. That is the great contradiction facing the global economy: a country that once supported global stability and growth by producing more could, if it continues on the same path, become the source of one of the largest economic imbalances of the twenty-first century.

One thing is clear: the world should not wait for a crisis to begin and only then look for a rescuer. As Froman argues, the more rational approach is to correct the imbalances gradually before they reach an explosive point. China should strengthen household consumption, reduce dependence on investment and exports, and allow part of its inefficient capacity to leave the economy. The United States, Europe, and other major powers, in turn, should cooperate through a multilateral framework to reduce trade and financial imbalances. For if a crisis begins in China, the central question may no longer be 'How do we save the world?' but rather: 'Who will save the world from the crisis created by our inability to save China?' [5]

China: Savior of the World in 2008, or Source of the Next Global Economic Crisis?

China's unprecedented expansion of industrial capacity over the past four decades—one of the main engines of transformation in the international economy—is approaching a point at which it could become an Achilles heel for China itself and perhaps the foundation of a larger global economic crisis. A country that once lowered production costs worldwide and expanded international trade through mass production, inexpensive exports, and heavy investment now faces a historic contradiction: its productive capacity has grown much faster than the ability of domestic and global demand to absorb it.

Michael Froman, economist, former president of the U.S. Council on Foreign Relations and former U.S. Trade Representative, warns in Foreign Affairs that the combination of a huge trade surplus, industrial overcapacity, and Beijing's continuing reliance on an export-oriented model may create an unstable structure. The central problem is that world markets can no longer absorb the growing volume of Chinese goods as easily as before. The question is increasingly urgent: how much further can China expand production without the world economy losing the ability to buy what it produces? [5]

China’s Overproduction: A New Problem for the World Economy

For decades, China’s export-led development model was close to a win-win arrangement. Global consumers received inexpensive goods, international companies obtained efficient low-cost supply chains, and China achieved spectacular growth through production, exports, and foreign investment. But the size of China’s economy today is not comparable to the past.

China’s trade surplus reached roughly $1.2 trillion in 2025, a historic record that pushed the annual surplus above $1 trillion for the first time. The U.S. Federal Reserve has also cited this figure as evidence of China’s rising weight in world trade and of deepening external imbalances. The issue is not only the size of the number. The surplus has emerged while Chinese domestic consumption remains weak. In other words, output that cannot be sufficiently consumed at home must move into foreign markets. China’s surplus should therefore be understood simultaneously as a sign of industrial strength and of structural weakness. China now accounts for close to one-third of global manufacturing output and dominates many industries, from steel and machinery to solar panels, batteries, and electric vehicles. But the problem starts precisely there: once one country controls such a large share of world productive capacity, expanding exports requires it to take ever more market share from others—and the global market is not infinite. [1]

The Cycle That Forces China to Produce More

This is not simply the result of successful Chinese firms; China’s domestic economic structure helps produce the outcome. Companies continue expanding output to protect market share even as profits fall. Local governments, worried about unemployment and falling revenue, have incentives to support local factories and industries. State banks can provide the credit needed to keep these enterprises operating. The result is a cycle that can be summarized as follows: [5]

More credit → more investment → more capacity → more production → more intense competition → lower prices → lower profits → greater need for support and exports.

In China, this situation is connected with the concept of neijuan—‘involution,’ or increasingly exhausting internal competition. Firms build more factories, produce more goods, and cut prices so they do not fall behind competitors, even when margins collapse. Under such conditions, more production is not necessarily a sign of economic health. Sometimes more production is evidence that the underlying problem is deepening. [5]

The Issue Is Not Only Exports; It Is Also Capital Allocation

If capital flows into sectors with persistently low economic returns, an economy may become larger in nominal productive capacity without necessarily becoming wealthier or more balanced. In recent years China has invested massively in advanced industries: electric vehicles, batteries, solar energy, industrial equipment, steel, shipbuilding, and many others. These policies have greatly strengthened China’s technological and industrial capacity, while also increasing the risk of creating capacity that domestic demand cannot absorb. [5, 11]

Steel is a revealing example. According to an OECD report, China accounted for roughly 54 percent of the global steel overcapacity gap in 2025, while its steel exports reached a record 131 million tonnes—more than the European Union’s total steel production in that year. This is only one example of a broader problem visible across Chinese industry. [13]

Solar and Electric Vehicles: Strength That Can Turn into Surplus

The scale of Chinese capacity in new industries is even more striking. In solar energy, China has reached a level of manufacturing capacity at which oversupply and falling prices have become major

concerns for the global industry. In electric vehicles, capacity has also expanded much faster than domestic demand. Various estimates point to extremely high production capacity for electric and hybrid vehicles, making exports essential for many Chinese automakers seeking to utilize existing plants. The same pattern appears elsewhere: capacity has been built, and now customers must be found. Those customers cannot forever be only Chinese consumers, so the world market becomes the next arena of competition. [5, 11]

The World No Longer Has the Same Capacity to Absorb China's Production

In the past, when China's economy was much smaller, its exports could rise without generating severe imbalances in the world economy. Today China is so large that, if it continues expanding exports far faster than global demand, it must eventually take a larger share of other countries' markets.

The U.S. Federal Reserve, in its examination of China's 'trade dominance,' has likewise emphasized that China's 2025 surplus reached an unprecedented level and that rising Chinese exports coincided with declining export-market shares for some advanced economies. The issue is therefore becoming global rather than merely Chinese: the more China exports, the greater the pressure on producers elsewhere; the lower Chinese prices fall, the harder it is for foreign competitors to remain in business; and the more countries believe their industries are losing markets, the stronger the political reaction becomes. [1]

Germany: A Picture of the Future That May Be Coming

Germany is perhaps one of the clearest examples of this change. For decades it was among the world's leading industrial and exporting powers; today it faces growing Chinese competition in automobiles, machinery, and industrial equipment. The auto industry in particular—one of the foundations of German industrial strength—is under pressure from the rapid rise of Chinese EV producers. The European Union has responded to concerns about subsidies and unequal competition by turning toward tariffs, trade-defense measures, and stronger support for domestic production. [12]

But this response creates a major dilemma.

If Western countries close their markets to Chinese goods, they protect domestic industries but increase the cost of trade and make global supply chains more complex. If markets remain completely open, domestic producers may be overwhelmed by the immense scale of Chinese output. This is a natural paradox of the globalization of capital—visible earlier in the rise of the United States, today in China, and perhaps tomorrow in India. The world therefore faces a difficult choice.

More Protectionism, or Acceptance of China's Industrial Pressure?

To understand the significance of China's current position, it is useful to return to 2008—the year China came to the world's aid.

The global financial crisis began in the United States and spread to Europe and other economies. Banks failed, world trade collapsed, and major economies entered deep recession. China was also hit: exports declined and factories faced closure. Beijing's response, however, was enormous. China introduced a stimulus of about RMB 4 trillion, close to $586 billion, and invested heavily in infrastructure, railways, housing, and construction. The policy did not merely prevent a severe domestic collapse. China became one of the principal engines of the global recovery because its demand for iron ore, copper, oil, and other raw materials increased, benefiting commodity exporters from Australia and Brazil to Chile and many developing countries. One of the most important lessons of 2008 was that China was no longer a peripheral economy; it had become large enough to influence the direction of the world economy. Today that same reality raises a disturbing question: if China is trapped in the next crisis, who will save China? [3, 4]

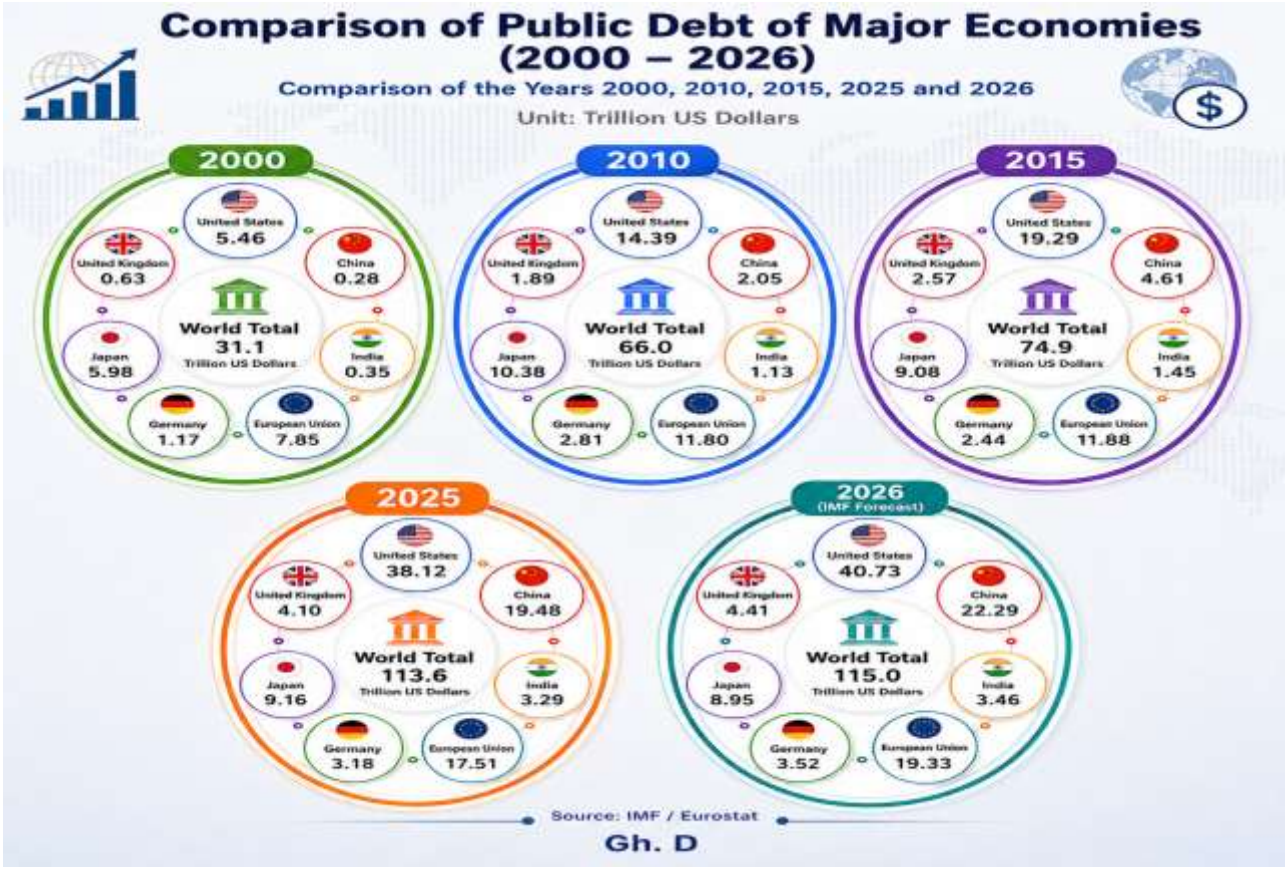
This may be the most important question concerning the future of the global economy.

In 2008 the crisis came from the United States and China became part of the solution. But what happens if the next crisis begins inside China itself?

If industrial overcapacity, weak domestic consumption, debt, the property crisis, population decline, and shrinking export markets reinforce one another, China could face a crisis for which the 2008 formula no longer works. Why? [5, 6]

Because many of the forces that made the huge 2008 stimulus possible no longer exist with the same strength. China's population is older and its labor force is shrinking; urbanization is no longer proceeding at its former speed; the property market faces structural problems; local governments carry heavy debt; and most importantly, China now possesses vastly greater productive capacity. [5, 6]

If Beijing responds under these conditions by building more factories and increasing industrial investment, it may intensify the central problem. China's problem today is not too few factories; it is too little demand for the factories that have already been built.



Can the United States Save China This Time?

The answer is extremely difficult. In 2008, despite their differences, China and the United States were deeply integrated in a highly interconnected global economy. Today, strategic rivalry, tariff conflict, technology restrictions, and security concerns make cooperation far more complicated. Europe faces weak growth, demographic pressures, and strain on its industries. Japan is burdened by high debt and an aging population. Emerging economies could be among the first victims if Chinese demand declines. Even the IMF and World Bank would face a qualitatively different problem: China is not an ordinary economy that can be rescued with a conventional financial package. It is the world's second-largest economy and one of the central hubs of manufacturing, trade, and commodity demand. If a Chinese

crisis became systemic, the problem would not simply be ‘saving China,’ but saving the world economy from the consequences of a Chinese crisis. Perhaps no one could rescue China. This brings us to the most important difference between 2008 and the future: China was one of the world’s greatest engines of demand in 2008, but if the next crisis forms inside China, the countries that once benefited from Chinese demand may themselves be pulled into crisis. Australia would be hit by weaker iron-ore demand; Brazil and Chile by reduced raw-material demand; African and Asian economies by weaker exports; Europe by greater industrial competition and pressure on domestic producers; and the United States by a new wave of trade and financial strain. [5, 6, 7]

For the first time in modern economic history, we may therefore face a crisis in which one of the world’s largest economies, instead of being part of the solution, becomes the center of the crisis. The central question would no longer be ‘Who will save China?’ but ‘Who will save the world from the crisis created by China’s crisis?’

How Would a China Crisis Spread to the World?

If foreign markets become increasingly closed to Chinese products, Chinese firms would face falling sales and profits. Bankruptcies would rise, banks would accumulate more bad loans, local governments would collect less revenue, unemployment would increase, and ultimately domestic consumption would fall further. This cycle could spread from China into the world economy.

The first channel would be commodities. Lower Chinese demand could put downward pressure on oil, copper, iron ore, and other commodity prices.

The second channel would be trade. Countries that export to China would face fewer orders.

The third channel would be industry. Producers around the world would face greater pressure to compete with cheaper Chinese goods.

The fourth channel would be politics. Governments reacting to Chinese industrial pressure might impose more tariffs and trade restrictions. An economic crisis could therefore become a geopolitical crisis—the world confronting a new ‘China shock.’

This situation recalls the debate over the ‘China shock,’ but in a different form. In earlier decades the phrase mainly referred to the massive entry of inexpensive Chinese goods into world markets. The new shock could be more complicated: China is not merely exporting more; it is also carrying excess capacity that could become a domestic crisis if global markets cannot absorb it. That is what makes the problem more dangerous.

China cannot indefinitely compensate for weak domestic demand by exporting more, just as the world cannot indefinitely absorb new Chinese productive capacity. Sooner or later an adjustment must occur.

The question is whether that adjustment will be gradual and managed—or sudden and crisis-producing.

The Solution: Prevention Before the Breaking Point

Economically, the solution is clear but politically difficult. China must shift the engine of growth away from investment and exports toward household consumption, services, and higher incomes. That requires stronger social security, pensions and health care, a larger household share of national income, and less need for precautionary saving. Industrial subsidies should become more targeted, and inefficient firms should be allowed to exit. The process may reduce growth in the short run but would make the economy healthier in the long run. [5, 6]

Internationally, the world also needs greater coordination. If China’s trade imbalances have become a central problem for the global economy, the answer cannot be tariffs alone. Some form of multilateral agreement is needed to rebalance trade, exchange rates, industrial capacity, and domestic demand—an arrangement that in some respects recalls the 1985 Plaza Accord. The purpose should not be to contain China, but to prevent economic imbalances from turning into a global crisis. [5]

The Greatest Paradox of China's Economy

In the end, China's story today is a historical paradox. The factor that made China the world's industrial power—its ability to produce on a vast scale and export broadly—may now become its greatest weakness. China has built factories able to produce more cheaply, more quickly, and on a far larger scale than many competitors. But if the world no longer has the capacity to buy those goods, the same productive strength becomes a problem. Overproduction pushes prices down; lower prices reduce profits; falling profits increase dependence on state support; and greater support keeps excess capacity alive. If this cycle is not broken, it may reach a point at which reform becomes impossible without heavy costs. For that reason, the warning about China is really a warning about the future of the world economy. [5]

In 2008, when the crisis began in the United States, China was one of the countries that helped restore global demand through financial strength and massive investment. Today the conditions are reversed. If the next crisis begins in China, the world may confront an unprecedented question: the country that came to the world's aid in 2008—if it is itself trapped in crisis this time, who can rescue it? Perhaps no single country can. That reality makes prevention more urgent. If China rebalances its economy before reaching the crisis point, increases domestic consumption, cuts surplus capacity, and reduces excessive dependence on exports, the world may avoid a major potential crisis. But if reform is delayed, market forces may eventually do what policymakers have avoided for years: force China into a sudden, painful, and costly adjustment. We would then no longer be facing merely a 'Chinese crisis,' but a global crisis originating in the heart of the world's largest factory. [3, 4, 5]

China was one of the world's rescuers in 2008. If the next crisis begins in China, is the world prepared to rescue China? If the answer is no, the question will not merely be who saves China; it will be who saves the world from the crisis caused by the inability to save China.

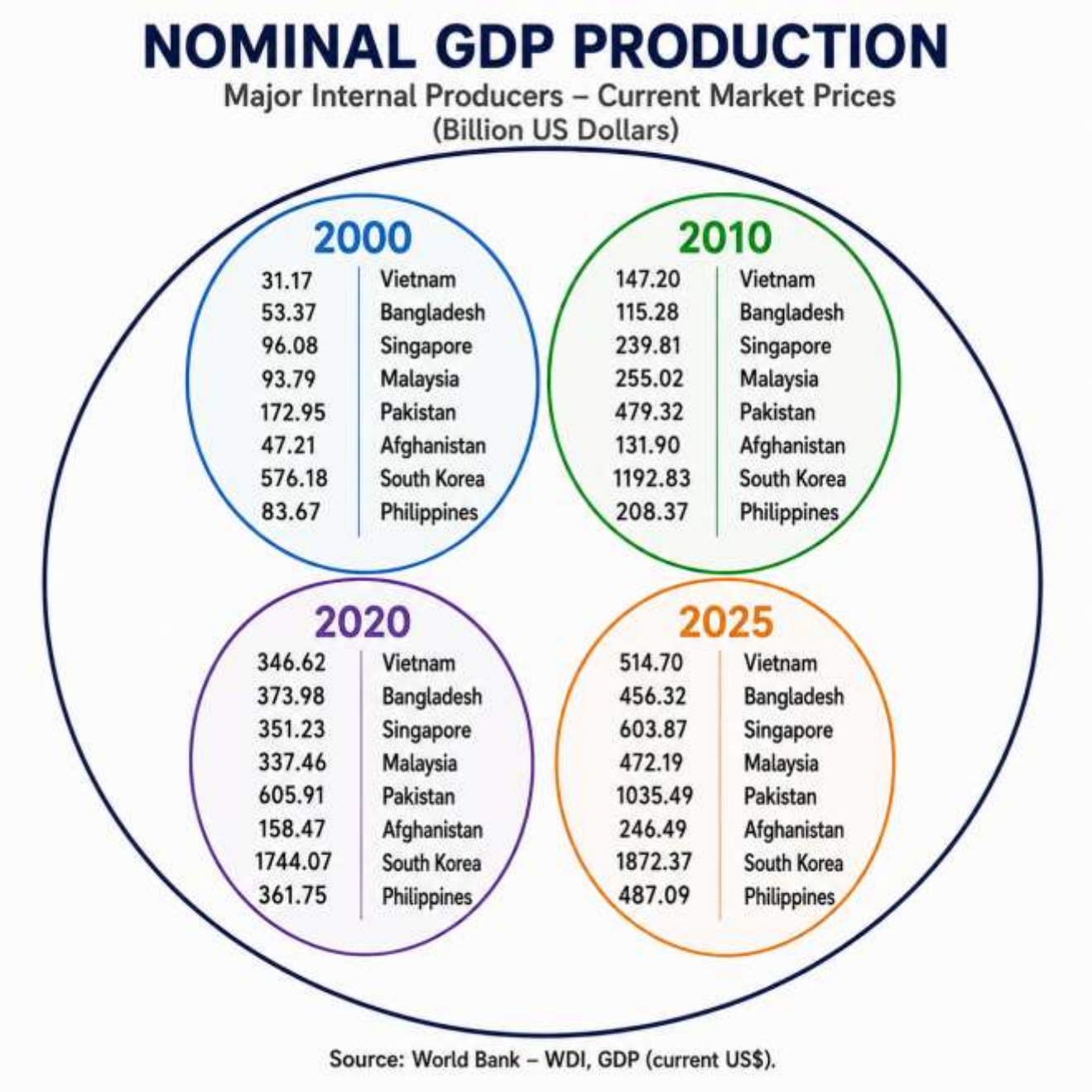
China Is Building 'Multiple Chinas' Around the World. Alongside the issue of overproduction, another development is taking shape that could further complicate the global economic equation. China is not merely seeking to export goods; it is creating a network of production centers, infrastructure, energy, mining, and supply chains across the world. Put simply, Beijing wants to move part of its productive capacity beyond its borders and create smaller versions of China's industrial ecosystem in different countries—places that can simultaneously serve as production bases, consumer markets, suppliers of raw materials, and gateways to global markets.

This strategy can be viewed as an effort to build 'multiple Chinas around the world'—not because China intends to make other countries identical to itself, but because it seeks a network of interconnected economies in which Chinese capital, technology, machinery, infrastructure, and companies play a major role. The development is especially significant if traditional U.S. and European markets raise higher tariff walls against Chinese goods, because China can then shift part of its productive capacity to countries with easier access to world markets.

Vietnam: A 'Second China' in Asia?

Vietnam is one of the clearest examples of this trend. In recent years it has become one of Asia's most important manufacturing centers, while Chinese companies have gained a substantial presence in its supply chains. Vietnam offers China two simultaneous advantages: geographic proximity and access to global markets. Its importance is not limited to attracting investment. Vietnam can serve as one stage in a production chain in which components, machinery, and raw materials come from China, the product is assembled or finished in Vietnam, and the final good is then exported elsewhere. Even if the final product is labeled 'Made in Vietnam,' a large share of the value chain may still depend on Chinese firms and suppliers. The expansion of production in Vietnam should therefore be understood as part of the wider 'China+1' shift: companies seek to reduce direct dependence on China, yet often preserve China in the background of the supply chain rather than remove it. China may move some factories

outside its territory without leaving the global production system; in some cases, Chinese capital and supply chains effectively move into other countries' factories. The following figure shows that Vietnam's economy expanded about seventeen-fold between 2000 and 2025, with an average rate above 11 percent—an increase unmatched by the other selected countries. Vietnam appears to have applied a similar pattern of concentrated development, rising labor productivity, and coordinated management within a shared-market framework. [2, 14]



The Belt and Road Is Not Just Roads and Ports

This trend takes on a much larger dimension within the Belt and Road Initiative (BRI). Launched in 2013, the BRI was initially associated mainly with major infrastructure projects—railways, roads, ports, power plants, and energy transmission lines—but its newer form is more complex. [15]

Alongside infrastructure, China is now investing in energy, mining, batteries, electric vehicles, technology, data centers, industrial production, and supply chains. [15]

According to the Green Finance & Development Center, China's engagement under the Belt and Road Initiative—the major program launched in 2013 to expand China's economic, infrastructure, and trade links with countries around the world—reached a record $213.5 billion in 2025, including roughly $128.4 billion in construction contracts and $85.2 billion in investment. Cumulative BRI engagement since its launch has reached about $1.4 trillion. These figures show that the Belt and Road is no longer merely an infrastructure-building project; it is gradually becoming a network for moving capital, production, energy, raw materials, and trade. From this perspective, the BRI can also be seen as one of China's tools for addressing part of its excess-capacity problem. If productive capacity inside China exceeds domestic demand, there are two choices: reduce output or find new markets and new production locations. China is pursuing the second option. [15]

Africa: Factory, Mine, and Market of the Future

Africa occupies a special place in this strategy. The continent possesses three things China needs at the same time: raw materials, growing markets, and an enormous need for infrastructure. China, in turn, offers three things many African countries need: capital, technology, and the ability to build infrastructure at scale. This complementarity has created the basis for rapidly expanding China-Africa economic relations. [15, 16]

In 2024, Africa's trade with China reached a record of roughly $275 billion. According to Boston University's Global Development Policy Center, between 2004 and 2024 Chinese companies announced about $73.9 billion in greenfield foreign direct investment and approximately $38.1 billion in mergers and acquisitions in Africa. But Africa's importance is not simply a matter of money. [16]

China is seeking to build an economic ecosystem in Africa: mines, roads, railways, ports, power plants, factories, logistics, and markets. China-Africa cooperation programs explicitly emphasize participation by Chinese companies in supply chains, industrial production, technology, energy, digital infrastructure, and mineral processing. [16]

In 2025, Africa also received roughly $61.2 billion in BRI engagement, the highest of any world region and about 283 percent above the previous year. This means that Africa could become not only a source of raw materials for China, but also part of China's global factory. [15]

Why Is Africa Strategically Important to China?

Suppose a Chinese company builds a battery, solar-panel, vehicle, or industrial-equipment factory in Africa. China can then pursue several objectives at once: process raw materials closer to where they are extracted; shift productive capacity out of China; gain access to local consumer markets and local labor; and, in some cases, use the host country as a gateway to other markets. This model is especially important as U.S. and European tariffs rise, because geographic diversification of production becomes a strategic advantage. Rather than export every product directly from a Chinese factory to the United States, China can shift parts of the production chain to Vietnam, Morocco, Egypt, Turkey, Central Asia, or elsewhere and access world markets from there. In this scenario, China is no longer merely the 'factory of the world'; it can become the designer and manager of a network of the world's factories. [15, 16]

‘Multiple Chinas’: Beijing’s Answer to Trade Encirclement?

From this perspective, China’s excess-production problem becomes linked to its external economic policy. If the United States and Europe restrict their markets, China needs to:

find new markets, create new production centers, diversify supply chains, secure natural resources, and connect more countries to its economic network. This is where the idea of ‘multiple Chinas’ acquires meaning. Vietnam can become one production link in East Asia, while Central Asia can serve as both a mineral source and an overland trade corridor. [14, 15]

The Middle East can become a center for energy, logistics, and capital; Africa can simultaneously provide raw materials, consumer markets, and production sites; and Latin America can supply minerals, energy, and new markets. In this model, China does not necessarily try to manufacture everything within its own borders; rather, it seeks to reproduce elements of the Chinese production ecosystem abroad. But this strategy carries a major risk. [15, 16]

The strategy may help China solve part of its excess-capacity problem, but it does not necessarily remove the underlying problem. If Chinese factories move to Vietnam, Africa, or the Middle East, global production capacity still increases. The problem may simply shift from ‘Chinese overproduction’ to ‘overproduction by a China-led industrial network.’ That distinction is crucial.

Suppose China builds a vehicle plant in Africa or Southeast Asia. If the core components come from China, the technology is Chinese, the capital is Chinese, the machinery is Chinese, and the product is intended for China-linked export networks, moving the factory does not necessarily end the excess-capacity problem; it merely changes its location. The world could therefore face a new challenge—not only ‘Chinese goods,’ but ‘Chinese industrial capacity across the world.’ Future competition would then concern more than products. U.S.-China rivalry, which moved from trade into technology, semiconductors, artificial intelligence, and energy, could enter a new stage centered on the geography of production. The questions would become:

Which countries will host the factories of the future?

Which countries will control deposits of lithium, copper, cobalt, and other critical minerals?

Which countries will control ports and transportation corridors?

Which countries will command production networks for batteries, vehicles, solar energy, and industrial equipment?

And ultimately, which country will be able to export its technological and industrial standards to the greatest number of other countries?

Through the Belt and Road, foreign investment, and the expansion of its companies abroad, China is competing precisely over this future. [15]

Achilles Heel or Strategic Genius?

Not all Chinese investment abroad should be reduced to an attempt to escape excess capacity. Many projects create real economic benefits for host countries, whose governments and companies are themselves actively seeking Chinese capital and technology. Strategically, however, one fact is difficult to deny: China is gradually moving part of its industrial power from ‘Chinese territory’ into ‘a global network of production and infrastructure centers.’ This can give China greater flexibility in the face of trade restrictions. If one market closes, another can open; if direct exports are restricted, production can occur in another country; if access to one raw material becomes difficult, China can seek another source; and if domestic consumption cannot absorb Chinese output, markets in Africa, Southeast Asia, the Middle East, and Latin America can provide part of the demand. [15, 16]

As a result, China's strategically minded leaders may be building something larger than a single 'factory of the world': a global network with China at its center and a surrounding constellation of producer economies, consumer markets, raw-material suppliers, and trade routes. This is where two trends meet—excess capacity inside China and the expansion of Chinese-linked capacity abroad in the form of a future China-centered common market. [15, 16]

An important feature of this transformation is that China is changing the model of its presence in Africa—from very large loans for giant infrastructure projects toward smaller and more targeted investments in digital technology, green energy, mining, manufacturing, and supply chains. [16]

If Beijing cannot strengthen domestic consumption sufficiently, it may spread productive capacity across the world rather than reduce it. In that case, the future question will no longer be only, 'How can the world deal with China's overproduction?' The larger question will be:

'If China can reproduce its productive capacity across the world, will the world be dealing with one China—or with a network of many Chinas?'

This may become one of the most important dimensions of twenty-first-century economic competition: instead of shrinking the factory to solve overproduction, China may take the factory to the world.

When China’s Production Engine Becomes a Threat to the Global Economy

China’s industrial leap over the past four decades has been one of the most important transformations in the international economy. It lifted hundreds of millions of people out of poverty, reshaped global supply chains, and delivered low-cost goods to consumers worldwide. Yet the same model that once powered China’s growth and helped lower global inflation now confronts a fundamental contradiction: China produces more than its domestic economy—and even the world economy—can absorb. [1, 5, 6]

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